

AUDIT COMMITTEE



Minutes of a meeting of the Audit Committee held on Tuesday, 31 January 2017 at 6.00pm in Meeting Room G3-G4, Addenbrooke House, Ironmasters Way, Telford

Present: Councillors R J Sloan (Chair), C F Smith (Vice Chair), I T W Fletcher, K R Guy, R Mehta, K S Sahota, W L Tomlinson and D G Wright

In Attendance: M Breese (Manager, KPMG) K Clarke (Assistant Director Finance and Human Resources) (until 6.43pm), T Drummond (Principal Auditor), P Harris (Finance Manager: Corporate & Capital) (Until 6.43pm), J Eatough (Assistant Director: Governance, Procurement & Commissioning), J Marriott (Service Delivery Manager: Internal Audit, Information Governance & Insurance), R Montgomery (Information Governance & Insurance Team Leader), B Morris (Finance Team Leader) (Until 6.43pm), I Pennington (Director KPMG), S Worthington (Democratic and Scrutiny Services Officer).

AUC 29 Apologies for Absence

Councillor A Lawrence.

AUC 30 Declarations of Interest

Councillor D G Wright declared an interest in minute number 34 due to being a member of the Local Government Pension scheme.

AUC 31 Minutes

The Chair noted his thanks to Adam Bunting, KPMG for his contribution and support to the committee.

Resolved – that the minutes of the meeting of the Audit Committee held on 20 September 2016 be confirmed and signed by the Chairman.

AUC 32 KPMG ANNUAL AUDIT LETTER 2015/16

The Committee received the annual audit letter from KPMG, who advised that this was a report which was required to be issued to Local Authorities on an annual basis. No new information had been included in the report; it was a summary on information previously provided.

AUC 33 GRANTS REPORT 2015/16

The Committee received the Grants report, presented by KPMG, who advised that this report looked at two arrangements; the housing benefit return and the teachers' pension. There were no findings, which was described as positive.

In respect of the housing benefit arrangements, this was a complex area, and easy to get wrong. The Committee asked what percentage of cases were audited; 20 to 40 cases were

initially looked at under each category, with additional cases being covered if any issues were found. This methodology was supported by PSAA.

Members recommended that a commendation be passed to Angie Astley, Assistant Director: Neighbourhood & Customer Service, in respect of the positive findings in respect of the Revenues and Benefits service.

AUC 34 EXTERNAL AUDIT PLAN 2016 / 17

The Committee received the report of the external auditors, presented by KPMG, who advised that the report was broadly similar to the previous years and noted the materiality figure of £4.5 million. Errors smaller than £250,000 were noted to be 'trivial', however, if issues of fraud were discovered, then the levels are dropped to consider these smaller amounts.

In regards to the significant risks, two standard risks were noted in respect of management override of controls and fraudulent revenue recognition. An additional risk was also identified in respect of the significant changes in the pension liability due to LGPS Triennial Valuation.

KMPG advised the Committee that the approach was broadly similar to previous years. In regards to the presentation of financial statements and accounts preparation, the main changes were that new formats and reporting requirements were to be introduced. There was one significant risk identified in regards to the Value for Money Arrangements (VFM) in respect of budget delivery, but the approach was similar to the previous year.

One elector question remained outstanding; clarification was awaited from the Information Commissioner's Office in regards to what information could be released to the elector. The Information Governance & Insurance Team Leader was requested to chase the ICO and update the Committee on progress.

KPMG advised that the annual fee had been set out in the annual fee letter. There was an additional fee charged in relation to the audit of the NuPlace accounts. In response to a question, KPMG advised that although NuPlace was a separate company, it was wholly owned by the Authority.

AUC 35 2017 / 18 TREASURY STRATEGY AND TREASURY UPDATE REPORT

The Committee received the Treasury strategy and update report. The Committee were advised that the approach the Council had been taking in recent years had been to limit investments in third parties, to reduce exposure to counterparty risk. At some point, the Council would need to lock into fixed term interest rates and the budget had been prepared to enable this to happen at any point. This decision would be taken after consultation with the Arlingclose, a firm of specialist treasury management advisors for local authorities. The Council had some commercial borrowing, including investments in NuPlace, which was

intended to bring in revenue over and above all associated costs to help reduce the amount of cuts to front line services that would otherwise be required.

In response to a question, the members were informed that the current rate of service debt repayment for the Council was 6.9%, which is well below the average rate for a unitary authority which was 10%.

Members questioned how quickly decisions were made in respect of short term borrowing and were advised that these decisions were taken by the Assistant Director: Finance and Human Resources, under delegated authority. These decisions could be made within a few hours, to ensure that the best rates could be achieved. Members were advised that short term loans were considered to be loans that were under 12 months, although some were two to three months and some only overnight.

In respect of the Treasury Management Update, the Council had taken out three new loans, totalling £15m and three LOBOs had been converted to maturity loans, which were a reduced risk.

In respect of the Treasury Strategy, the Council was expected to be required to borrow up to £39.8m in 2017 / 18. A limit of £15m had been put on any one counterparty for investments to ensure prudent diversification.

It was noted there may be some changes to the Treasury Strategy before it was presented to Cabinet as further information was available. Members of the Audit Committee would be provided with updated information.

In response to a question, KPMG advised that the external auditors would inform the Council if they considered that the Council were over borrowing or if the investments were too risky, this formed part of the VFM arrangements. KPMG advised that they had previously had to inform other Authorities of their concerns regarding their borrowing; they would also have to inform the Authority if they believed there were plans to do something unlawful but had never had to do so at Telford & Wrekin.

Resolved unanimously that

- (a) The treasury management activities for the first half year be noted; and**
- (b) The treasury management policy statement (Appendix A) be noted; and**
- (c) To RECOMMEND TO COUNCIL that the Treasury Strategy, including the Annual Investment Strategy for 2017/18 together with the associated treasury Prudential Indicators and the Minimum Revenue Provision Statement, which will apply from 2016/ 17 onwards, be approved.**

The Committee received the report of the Service Deliver Manager: Audit, Information Governance, Insurance & Investigation Team in respect of the work of Internal Audit for quarters 2 and 3. 30 reports were issued in quarters two and three, of which, 9 were amber. Follow ups on some of these reports had already been completed; Community Support Finance had moved to green, Abraham Darby Leisure Centre to yellow and Treasury Management to green. Core Groups, Brokerage and Foster Care payments remained amber.

The SDM continued to undertake quarterly Quality Assurance and Improvement Programme spot checks and had not identified any issues in quarters one or two. The External Assessment was undertaken during the week commencing 9th January. There were several recommendations from this assessment, which would be reported to the Committee at the June meeting.

Some members raised their concerns regarding the amber reports, that there was evidence that staff were not complying with key controls, members were advised that this was standard wording but the audits covered a wide variety of services, some of which had been audited for the first time. Recommendations were given following each audit, and then follow ups took place to ensure these recommendations were implemented.

Members requested that the Managing Director be invited to the next Audit Committee to discuss the members concern regarding Amber and Red Audits.

Local Authorities were required to have an Internal Audit Charter and an updated Charter had been included in the agenda. The updated Charter now included:

- Further updates to the Public Sector Internal Audit Standards;
- Formalisation to ensure transparency of how potential conflicts in respect to the audit of non-audit functions that the Audit SDM (CAE) is responsible for were managed;
- The resources available for 2017 / 18;
- Other minor changes to reflect the changing organisation.

Resolved that

- (a) The information contained in the report be noted; and**
- (b) The Internal Audit Charter 2017 / 18 attached as Appendix E be approved.**

AUC 37 UPDATE ON THE ANNUAL GOVERNANCE STATEMENT 2015 / 16
ACTION PLAN

The Service Delivery Manager: Audit, Information Governance, Insurance & Investigation advised the Committee that the Action Plan was part of the 2015/16 Annual Governance Statement.

Resolved that the progress made against the actions in the AGS Action Plan in Appendix 1 be noted.

The meeting ended at 7.05pm

Chairman:

Date: